

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Shelter General Insurance Company as of December 31, 2007

### ORDER

After full consideration and review of the report of the financial examination of Shelter General Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Shelter General Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 7, 2009.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
ASSOCIATION FINANCIAL EXAMINATION OF  
**SHELTER GENERAL INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2007

**FILED**  
MAY 17 2009  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

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Columbia, Missouri  
April 10, 2009

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner  
South Dakota Division of Insurance  
Midwestern Zone Secretary

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Shelter General Insurance Company**

hereinafter referred to as such, as Shelter General, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri 65218, telephone number (573) 445-8441. This examination began on August 18, 2008, fieldwork was completed on March 5, 2009 and the examination report was concluded on the above date.



## **SCOPE OF EXAMINATION**

### **Period Covered**

The prior full scope association financial examination of Shelter General Insurance Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2005, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was performed concurrently with the examinations of the Company's parent, Shelter Mutual Insurance Company (Shelter Mutual) and two affiliates, Shelter Reinsurance Company (Shelter Re) and Shelter Life Insurance Company (Shelter Life).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon included paid losses and schedule P analysis and reconciliation, attorney letters, review and documentation of review of fraud, tests of controls and system walk-throughs, narrative descriptions of processes and controls, etc.

### **Comments - Previous Examination**

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2004, and the subsequent response or action taken by the Corporation.

#### **Reinsurance Agreement with ERC**

*Comment:* The Company's excess reinsurance agreement with ERC, originally effective January 1, 1975, was determined to be disjointed with over 50 amendments and containing confusing terminology. It was recommended that the agreement should be restated in its entirety so that the reinsured lines of business, retentions, and limits are clearly defined.

*Company's Response:* The Company disagreed with the characterization of the agreement terms, insisting that neither the Company nor the reinsurer have had any disagreements or difficulty arising from terms of the agreement or the amendments.

*Current Findings:* The agreement was revised during the course of this examination, accordingly, no other issue was indicated.

### **Voided Drafts**

*Comment:* The Company was directed to maintain a running balance of voided claim drafts that have not been reissued at the end of each month. The Company was also directed to record as liabilities in the Losses line the amount of unpaid claims relating to voided drafts in accordance with an applicable Statement of Statutory Accounting Principle (SSAP).

*Company's Response:* The Company indicated that items of this nature are included in its IBNR. The Company further indicated that it will continue to conservatively report loss reserves in accordance with applicable standards.

*Current Findings:* No additional problems were indicated during the current examination period.

## **HISTORY**

### **General**

Shelter General was incorporated and commenced business on November 12, 1957. The Company was originally named Countryside Casualty Company. The Company's name was changed to Shelter General Insurance Company on July 1, 1981. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

### **Capital Stock**

Shelter General is owned 100% by Shelter Mutual. The Company is authorized to issue 1,250,000 shares of common stock with a par value of \$1 per share. As of December 31, 2007, all 1,250,000 shares were issued and outstanding for a total capital stock balance of \$1,250,000.

### **Dividends**

Shelter General paid ordinary cash dividends of \$2,000,000 in 2007, \$1,000,000 in 2006 and \$3,000,000 in 2005, to its sole shareholder, Shelter Mutual.

**Management**

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, Shelter Mutual. The Company's Articles of Incorporation and Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
John D. Duello Rocheport, MO	Chairman of the Board and Retired Executive Shelter Insurance Companies
John D. Moore Columbia, MO	President and CEO Shelter Insurance Companies
Raymond E. Jones Columbia, MO	Retired Executive Shelter Insurance Companies
Gerald T. Brouder Columbia, MO	President Columbia College
Ann K. Covington Columbia, MO	Vice Chairman Shelter Insurance Companies Attorney / Partner Bryan Cave, LLP
Andres Jimenez* Madrid, Spain	Vice President and Chief Executive Officer Mapfre Re Compania de Reaseguros, S.A.
Don A. McCubbin Sturgeon, MO	Executive Vice President Shelter Insurance Companies
Barry L. McKuin Morrilton, AR	Retired President Morrilton Area Chamber of Commerce
Phillip K. Marblestone University Park, FL	Retired Partner PriceWaterhouseCoopers LLP

\* Effective August 1, 2008, Mr. Jimenez retired and was replaced as a Board member by Randall C. Ferguson, Jr.

**Committees**

The Bylaws require an Executive and Compensation Committee, Audit Committee, and an Investment Committee of the Board of Directors. The Bylaws also allow for other committees to be appointed by the Board of Directors as needed. As of December 31, 2007, the members of each committee were as follows:



**Executive and Compensation Committee**

Ann K. Covington, Chairman  
John D. Duello  
Barry L. McKuin  
John D. Moore  
Gerald T. Brouder

**Investment Committee**

John D. Duello, Chairman  
Raymond E. Jones  
Thomas N. Fischer#  
Ann K. Covington  
John D. Moore  
Don A. McCubbin  
Gerald T. Brouder

**Audit Committee**

Barry L. McKuin, Chairman  
Ann K. Covington  
Phillip K. Marblestone

# Resigned effective March 1, 2008, and was replaced by Jerry L. French

**Officers**

The officers of the Company shall be a Chairman of the Board, Vice Chairman of the Board, a President and Chief Executive Officer, an Executive Vice President, Vice Presidents, Secretary and a Treasurer, all of whom shall be elected by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2007, were as follows:

John. D. Duello	Chairman
Ann K. Covington	Vice Chairman
John D. Moore	President and Chief Executive Officer
Randa Rawlins	Secretary and General Counsel
Don A. McCubbin	Executive Vice President
Gary D. Myers	Executive Vice President
Ricky L. Means	Executive Vice President
Jerry L. French	Executive Vice President, Treasurer, and Assistant Secretary
William C. Keithley*	Vice President
Joe L. Moseley	Vice President – Public Affairs
Gary L. Ford	Vice President – Planning and Research
C. Tyler Bailey	Vice President – Marketing
Madison M. Moore	Vice President – Claims
S. Daniel Clapp	Vice President – Actuarial
Terry L. Dykes	Vice President – General Services
Thomas N. Fischer#	Vice President – Investments
L. Gerald Brooks@	Assistant Treasurer

# Thomas N. Fischer resigned as Vice President of Investments effective March 31, 2008. Investment duties will be performed by Jerry L. French, Executive Vice President, Treasurer, and Assistant Secretary.

\* William C. Keithley was appointed Executive Vice President as of January 1, 2008, and was replaced by Yvette M. Gonzales as Vice President of Information Services effective as of the same date.

@ L. Gerald Brooks retired on November 21, 2008 and was replaced by Christina M. Workman as Assistant Treasurer. Ms. Workman was also appointed Vice President of Accounting as of January 1, 2008.

### **Conflict of Interest**

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination.

The Bylaws were amended and restated effective February 24, 2005, to specify the indemnification guidelines for employees, officers, and directors that are subject to litigation proceedings. The Bylaws were further amended effective October 10, 2005, to add the Investment Committee as a required committee of the Board of Directors, revise the duties and requirements of elected officers, and other minor changes. The Bylaws were also amended effective December 18, 2006, to change the title of Chairman of the Board and CEO to simply Chairman of the Board, and to change the title of President and Chief Operating Officer to President and Chief Executive Officer.

The minutes of the Board of Directors' meetings, committee meetings, and policyholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

### **Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions, mergers or major corporate events during the examination period.

### **Surplus Debentures**

No surplus debentures were issued or outstanding for the period under examination.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by its parent, Shelter Mutual, on behalf of itself, and its insurance subsidiaries, including Shelter General for each year of the examination period.

Shelter General is ultimately owned by the policyholders of Shelter Mutual. Shelter Mutual, a property and casualty mutual insurer, does not have any stockholders or controlling entity due to its formation and organization as a mutual entity.

As of December 31, 2007, Shelter Mutual, in addition to the ownership of Shelter General, wholly or partially owned the following entities:

- Shelter Life Insurance Company (Shelter Life), a State of Missouri life insurer that specializes in providing ordinary life insurance, annuities and accident and health insurance.
- Shelter Reinsurance Company (Shelter Re), a State of Missouri reinsurer that specializes in providing property and casualty reinsurance and earthquake reinsurance coverage on an excess of loss basis.
- Shelter Financial Corporation (SFC), a holding company for Shelter Financial Bank.
- Shelter Financial Bank (SFB), a savings and loan company that sells certificates of deposits and provides auto loans and mortgage loans. It does not have any demand accounts (checking or savings). Its customers are mainly policyholders of Shelter Mutual and Shelter General, but customers may also come from the general public.
- Shelter Financial Services, Inc. (SFS), a holding company for Shelter Benefits Management, Inc.
- Shelter Benefits Management, Inc. (Shelter Benefits), a benefit management company that manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.
- Shelter Enterprises, LLC (Shelter Enterprises) – Leases property and equipment to affiliates, including Shelter Mutual, and other non-affiliated entities.
- Daniel Boone Agency, LLC (DBA, LLC). – An insurance broker that places risks from leads generated by agents of Shelter Mutual and its insurance subsidiaries.

As of December 31, 2007, Shelter General had a partial ownership interest in Shelter Financial Services, Inc. (SFS), Shelter Enterprises, LLC (Shelter Enterprises) and Daniel Boone Agency, LLC (DBA, LLC).

**Organizational Chart**

The following table depicts the holding company system of Shelter General and its parent and affiliates as of December 31, 2007:

<u>Company</u>	<u>Parent or Controlling Entity</u>	<u>Ownership</u>
Shelter Mutual Insurance Company	Policyholders	100%
<b>Shelter General Insurance Company</b>	Shelter Mutual Insurance Company	100%
Shelter Enterprises, LLC	Shelter Mutual Insurance Company	13%
	Shelter General Insurance Company	39%
	Shelter Life Company	39%
	Shelter Reinsurance Company	9%
Shelter Life Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Reinsurance Company	Shelter Mutual Insurance Company	100%
Shelter Financial Corporation	Shelter Mutual Insurance Company	100%
Shelter Financial Bank	Shelter Financial Corporation	100%
Shelter Financial Services, Inc.	Shelter Mutual Insurance Company	79%
	Shelter General Insurance Company	11%
	Shelter Life Insurance Company	10%
Shelter Benefits Management, Inc.	Shelter Financial Services, Inc.	100%
Daniel Boone Agency, L.L.C.	Shelter Mutual	40%
	Shelter General	40%
	Shelter Life	20%
Haulers Insurance Company*	Shelter Mutual	100%

\*Haulers Insurance Company (Haulers Insurance) was acquired on June 30, 2008, subsequent to the examination date.

**Intercompany Transactions**

The Company is a party to the intercompany agreements outlined below.

1. **Type:** Agreement for Management Services and Facilities (9 separate agreements)
- Parties:** Shelter Life, Shelter Re, SFC, SFS, Daniel Boone Agency, LLC, Daniel Boone Agency, Inc. Daniel Boone Underwriters, Inc., Shelter Enterprises, LLC, (collectively referred to as the "Subsidiaries").
- Effective:** January 1, 1997 for Daniel Boone Agency, LLC  
January 1, 1997 for Shelter Life, Shelter Re, and SFS  
April 10, 1998 for SFC  
October 1, 2003 for DBA, Inc., DBU, Inc., and Shelter Enterprises and December 5, 2005, for Shelter General

**Terms:** All 9 agreements contain the following nearly identical terms. Shelter Mutual agrees to provide the employees to operate all aspects of the Subsidiaries. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the Subsidiaries' business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the Subsidiaries will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the Subsidiaries. These agreements were amended effective September 22, 2006, to prohibit payments no later than 89 days after the billing date.

The agreement with Shelter General also contains a processing clause wherein Shelter Mutual agrees to process and service outstanding claims drafts of Shelter General.

**2. Type:** Joint Expense Allocation Agreement

**Parties:** Shelter Mutual, Shelter Life, Shelter Re, SFS, Daniel Boone Agency, LLC, Shelter Enterprises, LLC, Shelter Benefits

**Effective:** May 19, 1999 (original Agreement)  
December 1, 2004 (amended and restated)  
September 22, 2006 Amended

**Terms:** Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

- (1) Personnel – estimated or actual time
- (2) Real Estate – square footage and employee count
- (3) Investment – portfolio value
- (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
- (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
- (6) Other Expenses – assets, employee count, or written premium.

This agreement was amended effective September 22, 2006, to strengthen the original settlement period of 30 days by prohibiting payment of later than 89 days after billing date.

**3. Type:** Tax Allocation Agreement

**Parties:** Shelter Mutual, Shelter Life, Shelter Re, SFS, SFC, Shelter Benefits, SFB and Haulers Insurance

**Effective:** Effective May 19, 1999; amended September 23, 2008, to include Haulers Insurance Company. Agreement is applicable to 1999 and subsequent tax years.

**Terms:** Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

**4. Type:** Transfer and Assumption Agreement

**Parties:** Shelter Life and Shelter Benefits

**Effective:** May 19, 1999

**Terms:** Shelter Mutual transferred certain of its agent and employee benefit liabilities to Shelter Benefits in 1999. The liabilities transferred included agents termination benefits, post-retirement benefits, accrued vacation benefits, and director's retirement plan benefits. In exchange, Shelter Mutual assigned its rights to a promissory note issued to it by Shelter Life to Shelter Benefits. Shelter Benefits also issued shares of preferred stock to Shelter Mutual, as part of the 1999 transactions. Shelter Benefits agrees to assume future agent liabilities and employee benefit liabilities from Shelter Mutual. Each year, Shelter Mutual makes a payment to Shelter Benefits for the incurred expenses for the agent and employee benefits under its administration.

In addition to the above listed agreements, Shelter General had the following additional intercompany transactions during and subsequent to the examination period:

- Shelter Mutual and Shelter General purchased structured settlement annuities from Shelter Life during the examination period. The structured settlements were used to provide periodic payouts of claim payments due under the terms of policies issued by Shelter Mutual and Shelter General. The claimants are the beneficiaries of the contracts. The present value of the structured settlements collectively paid by Shelter Mutual and Shelter General to Shelter Life was \$32,299,620, \$30,912,892, and \$29,206,385 during 2005, 2006, and 2007, respectively.
- Shelter General is a named insured on a general liability insurance policy issued by Shelter Mutual. The policy insures the premises and operations of the Shelter Mutual and all named insureds. Premium for this policy is charged to Shelter General through intercompany allocations under the Joint Expense Allocation Agreement.

The following table summarizes the payments and receipts that occurred during the exam period, between Shelter General and its affiliates:



Affiliate	Agreement	Net Paid / (Received)		
		2007	2006	2005
Shelter Mutual	Joint Expense Allocation	\$18,984,189	17,361,513	\$16,009,350
Shelter Mutual	Tax Allocation	4,399,711	3,814,796	4,523,665
Shelter Benefits	Transfer and Assumption	129,797	93,601	37,384
Shelter Mutual	Cash Dividend	2,000,000	1,000,000	3,000,000
DBA, LLC	Cash Distribution	(1,600,000)	(800,000)	(400,000)
<b>TOTALS</b>		<b><u>\$23,913,697</u></b>	<b><u>\$21,469,910</u></b>	<b><u>\$23,170,399</u></b>

### FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2007, Shelter General is a named-insured on a standard financial institution bond providing fidelity coverage, purchased through its parent, Shelter Mutual. The financial institution bond has a liability limit of \$2,500,000 and a deductible of \$100,000. This level of coverage meets the suggested minimum amount of fidelity insurance coverage as determined in accordance with NAIC guidelines.

Shelter General is also a named-insured on the following insurance policies: General Liability, Excess Umbrella, Automobile, Property and Equipment (including Boiler and Machinery coverage), Fiduciary and Excess Fiduciary, Workers Compensation and Earth Movement Policy coverages.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Shelter General does not have any direct employees or agents. Employees and agents of the parent, Shelter Mutual, perform all functions necessary for the operation of Shelter General pursuant to an Agreement for Management Services and Facilities. Shelter General reimburses Shelter Mutual for an allocated share of the payroll and benefits costs of the employees that provide services, pursuant to a Joint Expense Allocation Agreement. Both agreements are described further in the Intercompany Transactions section of this report.

A variety of standard benefits are provided to the Shelter Mutual employees and agents. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, and tuition reimbursement. Employees are also provided with a defined benefit pension plan and a 401(k) savings and profit sharing plan. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan.

## STATUTORY DEPOSITS

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, as reflected below, were sufficient to meet the capital deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Missouri St Rev.	\$2,000,000	\$2,178,140	\$2,096,592

### Deposits with Other States

The Company also has funds on deposit with other various other states and jurisdictions in which it is licensed. Those funds on deposit as of December 31, 2007, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arkansas	U.S Treasury Note	\$300,000	\$320,429	\$304,084
Louisiana	U.S Treasury Note	\$100,000	\$106,063	\$100,652
Oklahoma	U.S Treasury Note	\$300,000	\$320,429	\$304,084
<b>TOTALS</b>		<b><u>\$700,000</u></b>	<b><u>\$746,921</u></b>	<b><u>\$708,820</u></b>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Territory and Plan of Operation

Shelter General Insurance Company (Shelter General) is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed and writes business in Missouri and 12 other Midwestern states, as follows:

Arkansas	Indiana	Kentucky	Nebraska
Colorado	Iowa	Louisiana	Oklahoma
Illinois	Kansas	Mississippi	Tennessee

Written premiums in four states (Arkansas, Illinois, Missouri, Oklahoma, and Tennessee) accounted for 80% of the total direct written premiums in 2007. The major lines of business for Shelter General, based upon 2007 direct written premiums, are as follows:

<u>Line of Business</u>	<u>Percentage of Total Direct Written Premiums</u>
Private Passenger Auto Liability	48.7%
Auto Physical Damage	34.6%
Commercial Auto Liability	6.9%
All Other	9.8%
Total	<u>100.0%</u>

Shelter General, its parent, Shelter Mutual, and its affiliate, Shelter Life, are marketed as a single business operation under the “Shelter Insurance” brand name. The property and casualty products are underwritten by Shelter Mutual and Shelter General. Shelter Mutual writes all of the homeowners policies, commercial property, and commercial liability risks for the Shelter Insurance Companies. Automobile policies for insureds with higher credit scores are assigned to Shelter Mutual; insureds with lower credit scores are assigned to Shelter General. One exception is that Shelter Mutual does not write any auto business in Illinois and Tennessee since those states do not allow credit scoring for determining premium rates. Thus, Shelter General writes all auto business in Illinois and Tennessee.

The Company’s business is produced by approximately 1,311 captive agents, which also produce business for the Shelter Mutual and Shelter Life subsidiaries. The Company has a marketing staff that uses various methods of advertising and direct mailings to promote the products of Shelter General and its affiliates.

#### **Policy Forms & Underwriting**

#### **Advertising & Sales Materials**

#### **Treatment of Policyholders**

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent DIFP market conduct examination report was dated April 25, 2002, and covered the period from October 1, 2000 to September 30, 2001. No significant problems were noted from the review of this report. The Company also had a market conduct examination conducted by the state of Illinois during the examination period. The report was reviewed and no significant problems were noted.

**REINSURANCE****General**

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Direct Business	\$96,124,191	\$94,409,485	\$94,687,516
Reinsurance Assumed:			
Affiliates	0	0	0
Non-affiliates	6,296	6,818	19,057
Reinsurance Ceded:			
Affiliates	(0)	(0)	(0)
Non-affiliates	<u>(1,060,279)</u>	<u>(964,417)</u>	<u>(658,584)</u>
<b>Net Written Premiums</b>	<b><u>\$95,070,208</u></b>	<b><u>\$93,451,886</u></b>	<b><u>\$94,047,989</u></b>

**Assumed**

The Company does not assume any business.

**Ceded**

The Company cedes little business. Shelter General retains nearly all of the risks from the auto, fire, allied lines policies that it writes on a direct basis. The Company's reinsurance program is designed to protect the Company against very large risks and catastrophes.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Shelter General has several joint ceded reinsurance agreements in which the Company's parent, Shelter Mutual, is also a named reinsured. However, Shelter General has very little or no written premium for the lines of business covered in several of these agreements. For the agreements that are applicable to Shelter General, the Company does not directly pay reinsurance premiums to the reinsurers and does not directly receive loss recoveries. Rather, Shelter Mutual pays the total premium to the reinsurers on behalf of itself and Shelter General. Likewise, any loss recoveries are paid directly to Shelter Mutual. Shelter General is allocated reinsurance premiums and loss recoveries, pursuant to terms of the Joint Expense Allocation Agreement. This Agreement is described in the Intercompany Agreements section of this report.

Shelter Mutual and Shelter General maintain a Property Per Risk and Automatic Facultative Treaty with Gen Re. Under this treaty, the net amount retained on any one risk is \$750,000. The

per risk coverage is in two layers with the first layer attaching at \$750,000. The per risk limit is \$1.25 million subject to a per occurrence limit of \$3.75 million on any one event. The second layer attaches at \$2 million with a per risk limit of \$1.5 million subject to an occurrence limit of \$3 million. The Automatic Facultative Treaty with Gen Re extends property per risk coverage by an additional \$12 million for losses in excess of \$3.5 million per risk.

Shelter Mutual and Shelter General have a five-layer catastrophe program with several participating reinsurers. The catastrophe program covers all property risks including auto physical damage. The first four layers are contained in a catastrophe excess of loss agreement effective January 1 of each year. The participation of each reinsurer is defined under an Interest and Liabilities Agreement with each reinsurer. The two catastrophe agreements are renewed on an annual basis and provide coverage for losses up to \$210 million with a retention of \$50 million. The major reinsurers are XL Re Ltd., Tokio Millennium Re Ltd., and Renaissance Reinsurance Ltd. The remaining reinsured loss limit placed with Mutual Reinsurance Bureau's Regional Reciprocal Catastrophe Pool.

Shelter Mutual and Shelter General are reinsured by a multi-line casualty reinsurance treaty with Swiss Reinsurance Company (Swiss Re) (formerly, Employers Reinsurance Corporation). The agreement is in two layers with an aggregate limit of \$4 million. The treaty attaches at \$600,000 and \$2 million for losses in excess of \$2.6 million. Personal umbrella coverage with Swiss Re provides up to \$2 million in coverage in excess of underlying policy limits. In 2008, the multi-line casualty reinsurance coverage was combined with personal umbrella coverage. This coverage attaches at \$1 million and \$5 million for losses up to \$9 million per occurrence.

## **ACCOUNTS AND RECORDS**

### **Independent Auditor**

The Company's financial statements were audited by the CPA firm, Ernst & Young, LLP, of Kansas City, Missouri, for all the years under examination.

### **Appointed Actuary**

Loss and Loss Adjustment Expense reserves were reviewed and certified by Robert H. Wainscott, FCAS, MAAA, who is employed by Ernst & Young, LLP, of Chicago, Illinois for each of the years under examination.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of Shelter General for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Corporation and noted in the workpapers for each individual Annual Statement item.



**Assets**

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$142,728,589	\$0	\$142,728,589
Common Stocks	36,215,157		36,215,157
Cash and Short-Term Investments	8,430,248		8,430,248
Other Invested Assets	1,928,992		1,928,992
Investment Income Due and Accrued	2,147,159		2,147,159
Uncollected Premiums and Agents' Balances in the Course of Collection	452,483	20,105	432,378
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	8,675,981		8,675,981
Amounts Recoverable from Reinsurers	18,852		18,852
Federal Income Tax Recoverable	264,123		264,123
Guaranty Funds Receivable or on Deposit	168,079		168,079
Receivables from Parent, Sub., and Affiliates	72,435		72,435
Aggregate Write-ins for Assets:			
Equities and Deposits in Pools	9,227		9,227
State Income Tax Recoverable	4,560		4,560
Miscellaneous Accounts Receivable	<u>341</u>	<u>0</u>	<u>341</u>
<b>TOTAL ASSETS</b>	<b><u>\$201,116,226</u></b>	<b><u>\$20,105</u></b>	<b><u>\$201,096,121</u></b>

## Liabilities, Surplus and Other Funds

Losses	\$ 56,777,767
Loss Adjustment Expenses	10,848,569
Commissions Payable	3,170,307
Other Expenses	55,788
Taxes, Licenses and Fees	445,914
Net Deferred Tax Liability	429,523
Unearned Premiums	25,473,891
Advance Premium	2,598,674
Ceded Reinsurance Premiums Payable	74,178
Amounts Withheld or Retained	70,710
Remittances and Items Not Allocated	291,519
Provision for Reinsurance	2,169
Payable to Parent, Subsidiaries and Affiliates	2,765,281
Aggregate Write-In Liabilities:	
Catastrophe Reserves	764,581
Escheated Checks	314
<b>TOTAL LIABILITIES</b>	<b>\$103,769,185</b>
Common Capital Stock	1,250,000
Unassigned Funds (Surplus)	96,076,934
Capital and Surplus	<u><b>\$97,326,934</b></u>
<b>TOTAL LIABILITIES AND SURPLUS</b>	<u><b>\$201,096,119</b></u>

## Summary of Operations

### Underwriting Income

<b>Premiums Earned</b>	<b>\$94,116,323</b>
Losses Incurred	54,483,346
Loss Expenses Incurred	7,325,963
Other Underwriting Expenses Incurred	27,188,625
Aggregate Write-ins for Underwriting Deductions:	
Change in Catastrophe Reserves	<u>440,776</u>
<b>Total Underwriting Deductions</b>	<b><u>\$89,438,710</u></b>
<b>Net Underwriting Gain/(Loss)</b>	<b>\$4,677,613</b>

### Investment Income

Net Investment Income Earned	9,139,090
Net Realized Capital Gains or (Losses)	<u>368,296</u>
<b>Net Investment Gain or (Loss)</b>	<b>\$9,507,386</b>

### Other Income

Finance and Service Charges not Included in Premiums	336,666
Miscellaneous Other Income	<u>9,600</u>
<b>Total Other Income</b>	<b><u>\$346,266</u></b>
Net Income Before Dividends to Policyholders and Federal Income Taxes	\$14,531,265
Federal and Foreign Income Taxes Incurred	<u>(3,371,663)</u>
<b>Net Income or (Loss)</b>	<b><u>\$11,159,602</u></b>

### **Capital and Surplus Account**

Capital and Surplus, December 31, 2006	\$84,942,012
Net Income or (Loss)	11,159,602
Change in Net Unrealized Capital Gains or (Losses)	3,564,539
Change in Non-Admitted Assets	409
Change in Provision for Reinsurance	596
Change in Net Deferred Income Tax	(340,226)
Dividends to Stockholders	(2,000,000)
<b>Net Change in Capital and Surplus</b>	<b><u>\$12,384,920</u></b>
 <b>CAPITAL AND SURPLUS, DECEMBER 31, 2007</b>	 <b><u>\$97,326,932</u></b>

### **NOTES TO THE FINANCIAL STATEMENTS**

None

### **EXAMINATION CHANGES**

None

### **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

None

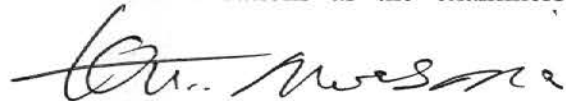
# ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter General Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Larry Kleffner, CFE, Shawn Hernandez, CFE, Karen Baldree, CPA, CFE, Steven Koonse, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment. Jon Michelson, FCAS, MAAA of Expert Actuarial Services, LLC also participated as a consulting actuary.

# VERIFICATION

State of Missouri )  
 )  
 County of )

I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

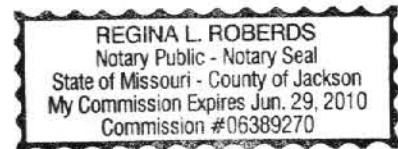


Levi N. Nwasoria, CPA, MSA, CFE  
 Examiner-In-Charge  
 Missouri Department of Insurance, Financial  
 Institutions and Professional Registration

Sworn to and subscribed before me this 7<sup>th</sup> day of April, 2009.

My commission expires: 06/29/10

  
 Notary Public



### SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



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Vicki L. Denton, CFE

Audit Manager

Missouri Department of Insurance, Financial  
Institutions and Professional Registration